FISCAL NOTE

Bill #: HB0716 **Title:** Increase level of exemption for class 8 property

Primary Sponsor: Maclaren, G **Status:** As Introduced - Revised

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$18,720	$446,720
State Special Revenue	$0	$0
Revenue:		
General Fund	($432,146)	($1,183,101)
State Special Revenue	($27,142)	($74,308)
Net Impact on General Fund Balance:	($450,866)	($1,629,821)

- [x] Significant Local Gov. Impact
- [ ] Included in the Executive Budget
- [ ] Dedicated Revenue Form Attached
- [ ] Technical Concerns
- [x] Significant Long-Term Impacts
- [x] Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. The proposal would raise the threshold amount of class 8 property that an entity may own and be exempt from property taxation.
2. Under current law, the exemption amount is $5,000 for class 8 personal property. The current law exemption amount is a statewide aggregate total amount of class 8 property owned by an individual or business entity.
3. Effective for tax year (calendar) 2006, the proposal would raise the statewide aggregate exemption amount to $50,000.
4. Under current law, there were 29,796 business entities or individuals that were subject to class 8 property tax in tax year 2004. The combined taxable value of their property in tax year 2004 was $117,240,984.
5. Under the proposal, in tax year 2004, 20,762 additional business entities or individuals would have been exempt from class 8 taxes. The total taxable value of the property owned by this group of taxpayers in tax year 2004 was $11,457,536.
6. Class 8 value statewide is expected to increase by 3.9% in tax year 2005 and 2.9% in tax year 2006 and succeeding years.

7. For purposes of this fiscal note, it is assumed that the property in the aforementioned group with an aggregate value below $50,000 will also grow by the estimated average statewide growth rates of 3.9% in tax year 2005, and 2.9% in tax year 2006.
8. Per assumption #7, the total taxable value of the property owned by owners with an aggregate of $50,000 or less is estimated at $11,904,380 ($11,457,536 x 103.9%) in tax year 2005, and $12,249,607 ($11,904,380 x 102.9%) in tax year 2006.
9. Most property taxes are paid in November and May of the fiscal year following assessment. However, under the provisions of 15-16-119, MCA, owners of personal property that is not-liened to real property pay property taxes 30-days after assessments are mailed. This means that instead of paying taxes in November and May of the following fiscal year, they will pay sometime before April in the current fiscal year. Therefore, there are some FY 2006 impacts associated with the bill.
10. About 38% of personal property is identified as "personal property not liened to real property". In FY 2006, estimated taxable value loss associated with this property is $4,523,664 ($11,904,380 x 38%). In FY 2007, the taxable value loss is estimated at $12,384,598 (($12,249,607 x 62%) + ($12,249,607 x growth of 2.9% x 38% for not liened to real property)).
11. The average mill levy for the state general fund is 95.53 mills (95 mills plus the 1.5 mills levied in five counties for vo-techs).
12. It is estimated that property tax revenue for the state general fund would *decrease* by $432,146 ($4,523,664 x 95.53 mills) in FY 2006, and $1,183,101($12,384,598 x 95.53 mills) in FY 2007.
13. The mill levy for the university system is 6.00 mills.
14. It is estimated that the university 6 mill account would be *reduced* by $27,142 ($4,523,664 x 6 mills) in FY 2006, and $74,308 ($12,384,598 x 6 mills) in FY 2007.
15. The Department of Revenue (DOR) anticipates on-going operating expenses of $18,720 annually. These expenses are for printing and mailing forms to all taxpayers, including those exempt under current law
16. The proposal applies to tax years beginning after December 31, 2005.

Office of Public Instruction

17. The reduction in property tax values from the increase in exemption in class 8 property taxable values would impact the state's obligation to fund the guaranteed tax base aid for school districts and counties.
18. Property tax values decrease by 0.67% in FY 2007. There will be a one-year guaranteed tax base (GTB) cost spike. The guarantee level is determined by the prior year taxable values applied against current year taxable values. The higher guarantee level in FY 2006 will apply to the lower taxable values in FY 2007 and cause increased state contribution as districts levy more mills to compensate for the drop in taxable values.
19. The one-time increased cost will be $304,000 in FY 2007 for district levies as calculated by the school fund model. Countywide retirement GTB will increase $124,000 based on a historical average of 27% of the costs paid for by the state and a FY 2004 county levies equal to $68.6 million (0.67% times $68.6 million local levies times 27%).
20. In FY 2008 and beyond the lower overall level of taxable values will not have a significant impact in statewide guaranteed tax base aid costs.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
Operating Expenses	$18,720	$18,720
Local Assistance – schools	0	428,000
TOTAL	$18,720	$446,720

<u>Funding of Expenditures:</u>		
General Fund (01)	$18,720	$446,720
<u>Revenues:</u>		
General Fund (01)	($432,146)	($1,183,101)
State Special Revenue (02) – *university 6-mill*	($27,142)	($74,308)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	($450,866)	($1,629,821)
State Special Revenue (02) – *university 6-mill*	($27,142)	($74,308)

<u>EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:</u>

1. This bill would significantly impact local governments and school districts due to the loss in taxable value of $4,523,664 in FY 2006, and $12,384,598 in FY 2007.
   b. The statewide average mill levy for this property in tax year 2004 (FY 2005) is 505.79. Statewide mill levies have increased annually by 4.5% since FY 2001. Assuming growth of 4.5%, the statewide average mill levy would be 528.55 (505.79 x 104.5%) in FY 2006, and 552.34 (528.55 x 104.5%) in FY 2007.
   c. Removing the states 101.53 (95.53 + 6) mills, local governments and schools would have an estimated average statewide mill levy of 427.02 (528.55 – 101.53) in FY 2006, and 450.81 (552.34 – 101.53) in FY 2007.
   d. The associated revenue decrease to local governments and school districts under the proposal is estimated to be $1,931,695 ($4,523,664 x 427.02) in FY 2006, and $5,583,101 ($12,384,598 x 450.81) in FY 2007.
2. Under 15-10-420, MCA, county and city governments could float their mill levies to offset this property tax revenue loss. Since the amount of loss associated with this bill is significant, mill increases could be large; this would shift the impacts onto other taxpayers, particularly homeowners.

<u>LONG-RANGE IMPACTS:</u>

The proposal will reduce general fund revenues by approximately $1.2 million each year into the future. The school GTB impact will not continue into the future.